

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03

H-03 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 AGR-20 DODE-00 PA-04 USIA-15

PRS-01 HEW-08 FEA-02 INT-08 DRC-01 /208 W

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R 010951Z FEB 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 1356

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

US MISSIOH EC BRUSSELS 628

US MISSION OECD PARIS 1612

UNCLAS SECTION 1 OF 2 STOCKHOLM 428

E.O. 11652 N/A

TAGS: ENRG, SW, ECON

SUBJECT: PALME GOVERNMENT PROPOSES BILL TO STIMULATE ECONOMY

REF: (A) STOCKHOLM 18; (B) STOCKHOLM 163; (C) STOCKHOLM 405

SUMMARY. MOVING SWIFTLY TO STIFLE COMPLAINTS FROM POLITICAL OPPOSITION THAT HIS GOVERNMENT HAD FAILED TO INCLUDE PROGRAM IN PROVISIONAL BUDGET OF JANUARY 11 FOR STIMULATING ECONOMY, PRIME MINISTER OLOF PALME PRESENTED TO RIKSDAG JANUARY 30 STIMULATIVE PACKAGE OF SOCIAL-WELFARE EXPENDITURES WORTH SKR 2.8 BILLION (US \$588 MILLION) INTENDED TO COUNTER DEPRESSING ECONOMIC EFFECTS OF ENERGY CRISIS.

"THE PROPOSAL," HE SAID, "HAS A SOCIAL DIRECTION AND MAY BE QUICKLY CARRIED OUT." NON-SOCIALIST OPPOSITION, LEADING ECONOMISTS, AND TRADE UNION AND EMPLOYER GROUPS GENERALLY CRITICIZED PACKAGE AS INADEQUATE TO ACCOMPLISH ITS UNCLASSIFIED

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PURPOSE; MANY PUT FORWARD USUAL CALL FOR REDUCTION OF VALUE-

ADDED TAX. PALME'S LACK OF PARLIAMENTARY MAJORITY WILL PROBABLY FORCE SOCIAL DEMOCRATS TO COMPROMISE WITH OPPOSITION IN RIKSDAG FINANCE COMMITTEE. FINAL PACKAGE WILL ALMOST CERTAINLY BE LARGER THAN ORIGINAL GOVERNMENT PROPOSAL IF PALME IS TO AVOID POLITICAL CRISIS. END SUMMARY.

1. AT OPENING OF THREE-DAY WINTER GENERAL DEBATE ON GOVERNMENT POLICY, PRIME MINISTER PALME WENT BEFORE RIKSDAG JANUARY 30 TO PROPOSE STIMULATIVE ECONOMIC MEASURES ESTIMATED TO COST SKR 2.8 BILLION (US \$588 MILLION AT JANUARY 30 TELEGRAPHIC EXCHANGE RATE OF SKR 4.76 EQUALS \$1.00). PACKAGE, AS PRESENTED, COULD BRING TOTAL BUDGET DEFICIT TO SKR 11 BILLION IN BOTH FISCAL YEAR 1973/4 AND 1974/5, AN AMOUNT WHICH PALME CLAIMED IMPLIED A "STRONGLY EXPANSIVE" ECONOMIC POLICY. PROGRAM PROVIDES:

A. PAYMENT TO FAMILIES OF SKR 200 PER CHILD IN APRIL AS ONE-TIME SUPPLEMENT TO GOVERNMENT'S NORMAL CONTRIBUTION TO CHILD SUPPORT, OR PAYMENT OF SKR 150 PER CHILD IF GOVERNMENT IS ALREADY PROVIDING SUPPLEMENTARY PAYMENT OR IS CONTRIBUTING TO CHILD'S EDUCATION. EXPECTED COST: SKR 390 MILLION.

B. PAYMENT TO PENSIONERS OF SKR 243 IN APRIL AS ONE-TIME SUPPLEMENT TO NORMAL PENSION BENEFITS. COST: SKR 360 MILLION. C. COMPENSATION FOR PAYMENT OF VALUE-ADDED TAX ON HOUSING CONSTRUCTION STARTED OR FINISHED IN 1974, AS MEANS OF COUNTERING HIGHER PRICES CAUSED BY ENERGY CRISIS. COST: SKR 800 MILLION IN BOTH 1974 AND 1975.

D. FUNDS FOR ENERGY-SAVING INVESTMENTS, SUCH AS HEAT-INSULATION OF HOUSING. COST: SKR 250 MILLION.

E. SUBSIDIES OF IMPORTANT BASIC FOODSTUFFS. COST: SKR 1 BILLION, OF WHICH SKR 300 MILLION WOULD BE USED AFTER JULY 1 TO COUNTER PRICE RISES EXPECTED TO RESULT FROM AGRICULTURAL AGREEMENT, AND SKR 700 MILLION WOULD BE USED, BEGINNING APRIL 1, TO LOWER PRICES OF FOODS (DAIRY PRODUCTS AND BEEF, PORK AND HORSE MEAT AND MEAT PRODUCTS) ALREADY SUBJECT TO PRICE FREEZE. SUBSIDIES COULD DROP PRICE OF LITER OF MILK BY SKR 0.30 (ABOUT 19 PERCENT) AND PRICE OF KILO OF MEAT BY SKR 1.00 (LESS SIGNIFICANT REDUCTION). GOVERNMENT PROPOSES CONTINUING FOOD PRICE UNCLASSIFIED

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FREEZE AFTER JUNE 30, WHEN IT WOULD OTHERWISE HAVE EXPIRED.

2. PALME DECLARED PACKAGE WAS DESIGNED TO PROTECT EMPLOYMENT, DAMPEN PRICE RISES, STRENGTHEN PURCHASING POWER, AND SUPPORT GROUPS (PENSIONERS AND FAMILIES WITH CHILDREN) WHO ARE PARTICULARLY EXPOSED TO ADVERSE CONSEQUENCES OF ENERGY CRISIS. SWEDEN'S STRONG FOREIGN-EXCHANGE POSITION, HE TOLD RIKSDAG, GAVE GOVERNMENT FREEDOM OF ACTION NECESSARY TO OVERCOME DAMPENING

OF ECONOMY.

3. PACKAGE IS GOVERNMENT'S SWIFT RESPONSE TO GENERAL CRITICISM OF BLAND PROVISIONAL BUDGET SUBMITTED JANUARY 11 (REF B), WHICH OMITTED ANY PROGRAM FOR TREATING PROBLEMS ARISING FROM OIL CRISIS. SITUATION HAS SINCE CLEARED ON SEVERAL POINTS, PALME SAID, NOW GIVING GOVERNMENT UNDERSTANDING OF DIRECTION WHICH ECONOMIC POLICY SHOULD TAKE. DETERIORATION IN OIL SUPPLY SITUATION APPEARS LESS LIKELY THAN BEFORE. GOVERNMENT'S NATIONAL INSTITUTE OF ECONOMIC RESEARCH HAS NOW DELIVERED ITS JUDGMENT ON EFFECT OF ENERGY PROBLEM ON ECONOMY (SEPTEL). TRADE UNION AND EMPLOYERS' CON-FEDERATIONS HAVE REACHED WAGE SETTLEMENT FOR 1974. IT NOW APPEARS CLEAR TO GOVERNMENT THAT SECONDARY PRICE INCREASES DERIVING FROM HIGHER OIL PRICES WILL HAVE DEPRESSING EFFECT UPON ECONOMY AND WILL PROBABLY CAUSE PRESENT STRONG SURPLUS IN CURRENT ACCOUNT TO TURN INTO DEFICIT.

4. REACTIONS OF ECONOMISTS, UNIONS AND EMPLOYERS. ECONOMISTS AND TRADE UNION AND EMPLOYER GROUPS GENERALLY REGARDED PROGRAM AS INSUFFICIENT TO ACHIEVE ITS PURPOSE. GUNNAR ELIASSON, FEDERATION OF SWEDISH INDUSTRIES, AND SVEN GRASSMEN, INSTITUTE FOR INTERNATIONAL ECONOMY, STOCKHOLM UNIVERSITY, HELD IN PRESS INTERVIEWS THAT GOVERNMENT'S PROPOSALS WERE TOO MODEST TO FULLY COUNTER DEPRESSED DEMAND AND UNDERUTILIZED CAPACITY THAT WILL BE DEEPENED BY HIGHER OIL PRICES. MOST BELIEVED THAT REDUCTION IN VALUE-ADDED TAX FROM 17 TO 12 PERCENT WOULD HAVE HAD MORE STIMULATIVE EFFECT THAN WHAT ERIK LUNDBERG OF STOCKHOLM SCHOOL OF ECONOMICS CALLED "ONE-TIME CHRISTMAS PRESENTS" WHICH MIGHT OR MIGHT NOT BE SPENT. TRADE UNION CONFEDERATION (LO) ECONOMIST CLAES-ERIK ODHNER, IN FACT, SAID PACKAGE "ON WHOLE MEETS CONFEDERATION'S DEMANDS. GOVERNMENT HAS NATURALLY CONSULTED WITH LO ON THESE QUESTIONS." DIRECTOR LENNART BODSTROM OF WHITE-COLLAR UNION TCO THOUGHT PROPOSALS HEADED UNCLASSIFIED

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IN RIGHT DIRECTION, BUT BELIEVED FURTHER STIMULATIVE MEASURES MIGHT BE NEEDED TO MAINTAIN EMPLOYMENT AT HIGH LEVEL. DIRECTOR STURE ESKILSSON OF EMPLOYERS' FEDERATION, NOT SEEING MUCH IN PACKAGE FOR HIS GROUP, WOULD HAVE PREFERRED VAT REDUCTION AND THOUGH SHORTCOMING OF GOVERNMENT'S PROPOSALS WAS THEIR UNEVEN DISTRIBUTION THROUGH POPULATION.

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5. REACTION OF OPPOSITION. NON-SOCIALIST OPPOSITION HELD THAT PROGRAM WAS GOOD AS FAR AS IT WENT BUT IT DID NOT GO FAR ENOUGH. THORBJORN FALLDIN (CENTER), FOR EXAMPLE, DECLARED HIMSELF "VERY SKEPTICAL" ABOUT HOW MUCH STIMULATIVE EFFECT PACKAGE WOULD HAVE. ALL BOURGEOIS LEADERS REPEATED STANDARD CALL FOR REDUCTION OF VAT. GOSTA BOHMAN (MODERATE) AND GUNNAR HELEN (LIBERAL) ACKNOWLEDGED THAT THEY APPROVED SOME POINTS IN PACKAGE. BOHMAN CITED POSSIBLE DIFFICULTY OF GETTING RID LATER OF FORMS OF SUPPORT IN PACKAGE. HELEN SAID HE WOULD AWAIT OUTCOME OF DEBATE IN RIKSDAG'S FINANCE COMMITTEE.

6 COMMENT. HELEN'S REMARK WAS PERHAPS THE PROFOUNDEST OF ALL. FINAL SHAPE OF PACKAGE IS LIKELY TO BE DECIDED IN THAT COMMITTEE WHERE BOURGEOIS OPPOSITION BLOC HAS MAJORITY OF ONE. EVEN SPLIT IN RIKSDAG BETWEEN SOCIAL DEMOCRATS AND THEIR ALLIES AND THE OPPOSITION, WELL-PLACED OFFICIAL IN NATIONAL INSTITUTE OF ECONOMIC RESEARCH COMMENTED TO EMBOFF, WILL REQUIRE SOCIAL DEMOCRATS TO UNCLASSIFIED

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COMPROMISE IN COMMITTEE TO AVOID POLITICAL CRISIS.
INSTITUTE PEOPLE, WHO EXPECT TO PREPARE STUDIES FOR COMMITTEE,

ANTICIPATE THAT SOME PROGRAMS
FAVORED BY OPPOSITION WILL BE ADDED TO BILL (REDUCTION OF
PAYROLL TAX ON COMPANIES, PERMANENTLY HIGHER CHILD ALLOWANCES
AND PENSION BENEFITS ARE SOME OPPOSITION SUGGESTIONS THAT
COME TO MIND). PACKAGE COMING OUT OF FINANCE COMMITTEE
CERTAIN TO BE CONSIDERABLY BIGGER THAN ORIGINAL PROPOSAL,
BUT PROBABLY UNDER SKR 3.5 BILLION, INSTITUTE OFFICIAL BELIEVED.
HE DID NOT EXPECT COMPROMISES TO INCLUDE REDUCTION OF VAT,
WHICH HE JUDGED HELEN UNPREPARED TO PUSH HARD FOR.

7. ONCE MORE SOCIAL DEMOCRATIC REFUSAL TO REDUCE VAT OR TO
APPLY OTHER GENERAL MEASURES STANDS ON GROUNDS OF
SOCIALIST ORTHODOXY AND PRACTICAL FEAR OF ALIENATING
LEFT-WINGERS IN AND OUT OF PARTY. VAT ARGUMENT IS BASICALLY
POLITICAL RATHER THAN ECONOMIC, INVOLVING SOCIAL-DEMOCRATIC
PRESTIGE. OBVIOUSLY WELL-CHOSEN AND FINELY TUNED SELECTIVE
MEASURES CAN SERVE AS WELL AS TAX REDUCTION TO INCREASE REAL
DISPOSABLE INCOME. FURTHER, PALME'S PACKAGE HOLDS ECONOMIC
EXCITEMENT FOR AVERAGE CITIZEN THAT SIMPLE REDUCTION OF VAT
MIGHT NOT PRESENT. IMPORTANT AIM OF PACKAGE IS TO CREATE
CONFIDENCE THAT WILL INDUCE HOUSEHOLD SPENDING.

8. MODERATE SIZE OF PACKAGE SHOWS GOVERNMENT'S CONCERN WITH
LIMITING INFLATION. INSTITUTE SOURCE SAID THAT ORIGINAL PACKAGE
IS EXPECTED TO RAISE GDP GROWTH RATE THIS YEAR FROM 2.7 PERCENT
WHICH IT MIGHT HAVE BEEN IN ABSENCE OF PACKAGE, TO ABOUT
3.5 PERCENT.

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